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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 17, 2002

APPLICATION OF

ROANOKE GAS COMPANY

CASE NO. PUE-2002-00373

For a general increase in rates

ORDER FOR NOTICE AND HEARING

On June 17, 2002, Roanoke Gas Company ("Roanoke Gas" or the "Company") filed an application with the State Corporation Commission ("Commission") for a general increase in rates. Roanoke Gas seeks to increase the Company's annual revenues by \$1,276,206, an increase of approximately 2.9%. The proposed increase includes the impact of the Company's termination of its Distribution System Renewal Surcharge ("DSR Surcharge").¹

In 1999, the Commission approved the merger of Commonwealth Public Service Corporation ("Commonwealth"), which served the Bluefield area, with Roanoke Gas contingent upon the maintenance of separate rates and accounting records until a consolidating

¹ The revenue requirement associated with the DSR Surcharge termination is \$587,017, with \$579,144 attributable to Roanoke and \$7,872 attributable to Bluefield, and represents approximately 46% of the Company's requested increased revenue requirement.

rate case.² In this proceeding, the proposed revenue requirement includes both the Roanoke and Commonwealth service territories. Roanoke Gas proposes one tariff with separate commodity rates for each area and identical terms and conditions for service ("Terms and Conditions") for both Roanoke and Bluefield.

The rates are proposed to go into effect for service rendered on and after December 1, 2002. The proposed rates are based on the 10.5% rate of return on equity found appropriate in the Company's last increase in rates.³ The proposed rates would increase customer bills between 1% and 7%, with the exception of interruptible transportation customers in Bluefield, where the increases would be in excess of 50%.

Roanoke Gas wishes to make several changes to its Terms and Conditions. The Company proposes to modify its main extension policy to provide for a standard main extension of 100 feet per service. Roanoke Gas also proposes to modify the Company's PGA mechanism to provide for a gross-up to recover the gas cost portion of bad debt expense, and to include in the PGA mechanism the interest expense for inventory and prepaid gas. In addition, the proposed Terms and Conditions specify in each rate

² Application of Roanoke Gas Company and Commonwealth Public Service Corporation, For approval of a merger agreement and establishment of a holding company, Case No. PUA-1998-00035, 1999 S.C.C. Ann. Rpt. 143.

³ Application of Roanoke Gas, For a general increase in rates, Case No. PUE-1998-00626, 1999 S.C.C. Ann. Rpt. 440.

schedule how the billing units will be rounded. The Company proposes that the Terms and Conditions provide that bill payment and deposits may be placed on a major credit card for a fee of \$5.00 per transaction. The Terms and Conditions would apply the provisions of the Other Special Services section of Section 15 - Special Service Charges when customers request a meter reading and/or billing that is not on their normal reading and billing cycle. Roanoke Gas also proposes to increase the reconnection fee at the meter after a disconnection from \$30 to \$50, in order to more closely reflect the cost of such reconnection.

Roanoke Gas is requesting to implement a Revenue Stabilization Factor ("RSF") to adjust on an annual basis the Company's revenues based on experienced weather. According to the application, the Company will compare the heating degree days experienced in a future 12-month period (for example, April 1, 2003 - March 31, 2004) to those calculated for a weather-normalized test year used in this proceeding. To the extent the heating degree days in this future 12-month period fall outside a 6% band around the normalized test year level, the Company will determine a per therm adjustment and, after Staff review, bill or credit the annual adjustment to each customer's account in the billing month following the calculation. Roanoke Gas proposes to implement the RSF for the 12-month period that begins on April 1, 2003, with the first

possible RSF, if applicable, to be placed on customers' bills in May 2004. The Company argues that the RSF will reduce the financial impact of uncertain weather on the Company and its customers.

NOW UPON CONSIDERATION of the Company's application, the Commission is of the opinion and finds that this matter should be docketed, that a Hearing Examiner should be assigned to conduct all further proceedings on this matter on behalf of the Commission, and that a procedural schedule should be established as prescribed herein.

Accordingly, IT IS ORDERED THAT:

(1) Roanoke Gas' application for approval of a general increase in rates is docketed as Case No. PUE-2002-00364.

(2) A public hearing shall be convened on December 10, 2002, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive comments from members of the public and to receive evidence on the captioned application. Any person not participating as a respondent as provided in ordering paragraph (10) below, may give oral testimony concerning the application as a public witness at the December 10, 2002, public hearing. Public witnesses desiring to make statements at the public hearing concerning this application need only appear in the Commission's second floor courtroom in the Tyler Building at the

address set forth above prior to 9:45 a.m. on the day of the hearing and register a request to speak with the Commission's bailiff.

(3) Roanoke Gas may put its rates into effect on an interim basis subject to refund on December 1, 2002.

(4) As provided by § 12.1-31 of the Code of Virginia and Rule 5 VAC 5-20-120 of the Commission's Rules of Practice and Procedure, a Hearing Examiner is appointed to conduct all further proceedings in this matter on behalf of the Commission and to issue a final report herein.

(5) Upon written request received by its counsel, the Company shall provide a copy of the application to the requesting party at no cost. If acceptable to the requesting individual, the Companies may provide the application, with or without attachments, by electronic means. Written requests shall be made to Richard D. Gary, Esquire, Hunton & Williams, River Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074. Interested persons may also review a copy of the application and the Commission's Order for Notice and Hearing in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday.

(6) On or before August 23, 2002, Roanoke Gas shall complete publication of the following notice as display advertising (not classified) on one occasion in newspapers of general circulation throughout the Company's service territories within the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION
BY ROANOKE GAS COMPANY, FOR APPROVAL OF
A GENERAL INCREASE IN RATES
CASE NO. PUE-2002-00373

On June 17, 2002, Roanoke Gas Company ("Roanoke Gas" or the "Company") filed an application with the State Corporation Commission ("Commission") for a general increase in rates. Roanoke Gas seeks to increase the Company's annual revenues by \$1,276,206, an increase of approximately 2.9%. The proposed increase includes the impact of the Company terminating its Distribution System Renewal Surcharge ("DSR Surcharge"). The proposed revenue requirement includes both the Roanoke and Bluefield service territories. Roanoke Gas proposes one tariff with separate commodity rates for each area and identical terms and conditions for service ("Terms and Conditions") for both Roanoke and Bluefield.

The rates are proposed to go into effect for service rendered on and after December 1, 2002. Roanoke Gas may put its rates into effect on an interim basis subject to refund on December 1, 2002. The proposed rates are based on the 10.5% rate of return on equity found appropriate in the Company's last increase in rates. The proposed rate would increase customer bills between 1% and 7%, with the exception of interruptible transportation customers in Bluefield, where the increases would be in excess of 50%.

Roanoke Gas proposes several changes to its Terms and Conditions, including modification of its main extension policy, PGA mechanism, and how billing units will be rounded. The Company proposes that bill payment and deposits may be placed on a major credit card for a fee of \$5.00 per transaction. Further proposed changes to the Terms and Conditions are set out in the Application.

Roanoke Gas is requesting to implement a Revenue Stabilization Factor ("RSF") to adjust on an annual basis the Company's revenues based on experienced weather. To the extent the heating degree days in future 12-month periods fall outside a 6% band around the normalized test year weather, the Company will determine a per therm adjustment and, after Staff review, bill or credit the annual adjustment to each customer's account in the billing month following the calculation. Roanoke Gas proposes to implement the RSF for the 12-month period that begins on April 1, 2003, with the first possible RSF, if applicable, placed on customers' bills in May 2004. The Company argues that the RSF will reduce the financial impact of uncertain weather on the Company and its customers.

Copies of the application are available through written request to counsel for Company, Richard D. Gary, Esquire, Hunton & Williams, River Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074. Interested persons may also review a copy of the application and the Commission's Order for Notice and Hearing in the Commission's Document Control Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. A copy of the Commission's Order may also be obtained on the Commission's website:
www.state.va.us/scc/caseinfo/orders.htm.

A public hearing on the application will be held on December 10, 2002, at 10:00 a.m., in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia.

Any interested person may participate as a respondent in the proceeding by filing, on or before October 1, 2002, an original and fifteen (15) copies a notice of participation with the Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. Interested parties should obtain a copy of the Commission's Order for further details on participation as a respondent.

Interested persons not participating as a respondent may give oral testimony concerning the application as a public witness at the December 10, 2002, public hearing. Public witnesses desiring to make statements at the public hearing concerning this application need only appear in the Commission's second floor courtroom in the Tyler Building at the address set forth above prior to 9:45 a.m. on the day of the hearing and register a request to speak with the Commission's bailiff.

Any interested person may file comments on the application with the Clerk of the Commission at the address set forth above on or before October 28, 2002.

All filings with the Clerk of the Commission shall refer to Case No. PUE-2002-00373 and shall simultaneously be served on counsel to the Company at the address set forth above.

ROANOKE GAS COMPANY

(7) On or before August 23, 2002, the Company shall mail a copy of their application and this Order by personal delivery or by first-class mail, postage prepaid to the chairman of the board of supervisors and county attorney of each county and upon the mayor or manager of every city and town (or upon equivalent officials in counties, towns and cities having alternate forms of government) in which the Company provides service. Service shall be made by first-class mail to the customary place of business or residence of the person served.

(8) On or before September 6, 2002, Roanoke Gas shall file with the Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118, proof of the publication and service required in ordering paragraphs (6) and (7).

(9) On or before September 11, 2002, Roanoke Gas shall file with the Clerk at the address set forth in ordering paragraph (8) above an original and fifteen (15) copies of any additional direct testimony, exhibits and other material supporting its application.

(10) Any interested person may participate as a respondent in this proceeding by filing, on or before October 1, 2002, an original and fifteen (15) copies a notice of participation with the Clerk at the address set forth in ordering paragraph (8) above, and shall simultaneously serve a copy of the notice of

participation on counsel to the Company, Richard D. Gary, at the address set forth in ordering paragraph (5) above. Pursuant to Rule 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure, any notice of participation shall set forth (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Interested parties shall refer in all of their filed papers to Case No. PUE-2002-00373.

(11) Within five (5) business days of receipt of a notice of participation as a respondent, the Company shall serve upon each respondent a copy of this Order, a copy of the application, and all materials filed with the Commission, unless these materials have already been provided to the respondent.

(12) On or before October 28, 2002, each respondent may file with the Clerk at the address set forth in ordering paragraph (8) above an original and fifteen (15) copies of any testimony and exhibits by which it expects to establish its case and shall serve copies of the testimony and exhibits on counsel to the Company and on all other respondents. The respondent shall comply with Rules 5 VAC 5-20-140, 5 VAC 5-20-150, and 5 VAC 5-20-240 of the Commission's Rules of Practice and Procedure.

(13) On or before October 28, 2002, any interested person may file any comments on the captioned application with the Clerk at the address in paragraph (8) above and shall mail a copy to counsel to the Company, Richard D. Gary, at the address set forth in paragraph (5) above.

(14) The Commission Staff shall investigate the Company's application for a general increase to its rates and charges and incentive rate plan. On or before November 18, 2002, the Staff shall file with the Clerk of the Commission an original and fifteen (15) copies of the Staff's testimony and exhibits regarding the captioned application and shall promptly serve a copy on counsel to the Company and all respondents.

(15) On or before December 2, 2002, the Company shall file with the Clerk of the Commission an original and fifteen (15) copies of any rebuttal testimony that it expects to offer in rebuttal to the testimony and exhibits of the respondents and the Commission Staff and shall on the same day serve one copy on Staff and all respondents.

(16) Roanoke Gas and respondents shall respond to written interrogatories within seven (7) calendar days after receipt of the same. Except as modified above, discovery shall be in accordance with the Commission's Rules of Practice and Procedure.